

**Crusty Crayfish's Cashflow Forecast**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Loan (increased by 50,000)			100,000		50,000			
<b>Total Cash Inflow</b>	0	0	151,000	71,000	121,000	71,000	71,000	71,000

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**Cash Outflows**

Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
M of F monitoring fee					50,000			
Provisional Tax	8,000			8,000				
Personal drawings	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Wages - Employees	6,680	6,680	11,101	11,101	11,101	11,101	11,101	11,101
Advertising	500	500	1,500	1,300	1,300	1,300	1,300	1,300
Loan Repayment			3,000	3,000	3,471	3,471	3,471	3,471
<b>Total Cash Outflow</b>	29,680	24,180	159,001	73,401	115,872	65,872	65,872	65,872

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Opening Bank Bal	55,000	25,320	1,140	-6,861	-9,262	-4,134	994	6,122
Net Cash Flow	-29,680	-24,180	-8,001	-2,401	5,128	5,128	5,128	5,128
Closing Bank Bal	25,320	1,140	-6,861	-9,262	-4,134	994	6,122	11,250

Crusty Crayfish are expanding so purchased a quota in July, providing forecasted income of \$51,000 in cash sales and \$20,000 a month via accounts receivable from August. This increased running expenses from \$10,000 to \$36,400 in July and accounts payable from \$2,500 to \$9,100 in August. Additionally, another full-time worker is needed so wages increase from \$6,680 to \$11,101 in July.

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Crusty Crayfish received an unexpected letter and invoice end of July, from the Ministry of Fisheries, informing them of a remote monitoring fee and the cost to install a camera on the crayfish boats which is going to cost them all up \$50,000. The impact that this will have on the business is that before the fee is added to the month of September and before any changes are made to the spreadsheet, the closing bank balance was \$-4,063 with the added \$50,000 this would dramatically change the cash flow forecast. The closing bank balance in the month of September after the added fee would be \$-54,063.

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A possible response of the crayfish business could be to reduce personal drawings by half, from \$4,500 to \$2,250 changing the closing bank balance of the cash flow forecast. A disadvantage of reducing the drawings is the business owner may not have enough money for sustainable living.

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Another possible response to the \$50,000 fee is to reduce the amount the business will pay for advertising. They originally paid \$500 each month up until July when they would start paying \$1,500. I reduced this by \$200 from August because if they reduce advertising too much, they could lose income by losing potential customers and therefore profit.

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The overdraft facility put in place shows that the business has a pre-arranged overdraft limit of \$10,000, and to extend this it would be another \$500 per month. They could instead increase the loan by \$50,000 from the bank. The original loan was over 3 years and I worked out on the Westpac personal loan calculator that with the same variable interest rate they would be repaying \$4,512 monthly. Another option is to extend the time to pay it back, spreading the payment over 4 instead of 3 years. This would only cost them \$3,471. This is an option they could consider if the business is in a position to pay \$3,471 monthly for the duration of 4 years.

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Disadvantages would be that increasing the loan by \$50,000 it would have to pre-approved by the bank, and the business would end up paying more interest because they are borrowing for four years not three years.

3

Overall, I believe that the best response for the business is to reduce advertising and increase the loan. I am not recommending reducing drawings because the larger quota of crayfish will increase workload, and the business owner probably needs this income to pay all their personal bills, so reducing drawings is not really a viable response.

4

I believe the response above is the best fit for the business. It will ensure that Crusty Crayfish can run a sustainable business which complies with all the regulations and continues providing the best quality crayfish for their target market.

For example, the business could add lump sums to pay off the loan earlier and reduce the amount of interest being paid, and still paying extra for advertising and marketing will provide increased exposure for the new business, etc.

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For example, by increasing the loan, it could also be possible for the business to reduce or even remove the \$10,000 overdraft from November, which would further reduce expenses, etc.

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